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## Part III Actuarial Memorandum (REDACTED)

**WellCare Health Plans of Kentucky, Inc.  
Individual Rate Filing  
Effective January 1, 2016**

Prepared for:  
**WellCare Health Plans of Kentucky, Inc.**

Prepared by:  
**Pedro Alcocer, FSA, MAAA  
Consulting Actuary  
Milliman, Inc.**

3000 Bayport Drive, Suite 1050  
Tampa, FL 33607  
Tel +1 813 282 9262  
Fax +1 813 282 8276

[milliman.com](http://milliman.com)

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## EXHIBIT 1. GENERAL INFORMATION

### Document Overview

This document contains the Part III Actuarial Memorandum for WellCare Health Plans of Kentucky, Inc.'s (WellCare) individual block of business, effective January 1, 2016. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

The individual rates in this memorandum are guaranteed through December 31, 2016. This HMO product will be offered both via the Kentucky Health Benefit Exchange (Kynect) as well as outside Kynect. This WellCare Kentucky HMO product will be offered in Kentucky only. WellCare will offer multiple plans in select rating areas. This product is being filed as a Qualified Health Plan (QHP).

This actuarial memorandum is subject to the terms and conditions of the Consulting Services Agreement between WellCare and Milliman, Inc. dated December 3, 2002 and amended on February 1, 2010. The information in this actuarial memorandum has been prepared for the use of WellCare Health Plans of Kentucky, Inc. We understand this actuarial memorandum will be provided to the Commonwealth of Kentucky Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIO), and their subcontractors to assist in the review of WellCare's individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman under any theory of law.

### Company Identifying Information

Company Legal Name: WellCare Health Plans of Kentucky, Inc.  
State: The Commonwealth of Kentucky has regulatory authority over these policies.  
HIOS Issuer ID: 72001  
Market: Individual  
Effective Date: January 1, 2016

### Company Contact Information

Primary Contact Name: Stephanie Williams, FSA, MAAA  
Primary Contact Telephone Number: (352) 206-8476  
Primary Contact Email Address: stephanie.williams@wellcare.com

**EXHIBIT 2. PROPOSED RATE INCREASE(S) (REDACTED)**

**EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS (REDACTED)**

## EXHIBIT 4. BENEFIT CATEGORIES

For purposes of establishing a manual rate, we utilized the Milliman Health Cost Guidelines <sup>TM</sup> (HCGs). We assigned the manual data utilization and cost information to benefit categories as shown in Worksheet 1, Section I of the Part 1 URRT based on place and type of service using a detailed claims mapping algorithm summarized as follows:

### **Inpatient Hospital**

Includes non-capitated facility services for medical, surgical, maternity, mental health and substance abuse, skilled nursing, and other services provided in an inpatient facility setting and billed by the facility.

### **Outpatient Hospital**

Includes non-capitated facility services for surgery, emergency room, lab, radiology, therapy, observation and other services provided in an outpatient facility setting and billed by the facility.

### **Professional**

Includes non-capitated primary care, specialist care, therapy services, the professional component of laboratory and radiology services, and other professional services, other than hospital based professionals whose payments are included in facility fees.

### **Other Medical**

Includes non-capitated ambulance, home health care, DME, prosthetics, supplies, vision exams, dental services and other services. The measurement units for utilization used in this category are a mix of visits, cases, procedures, etc.

### **Capitation**

WellCare is not utilizing any capitation arrangements in this market at this time.

### **Prescription Drug**

Includes drugs dispensed by a pharmacy. This amount is net of rebates received from drug manufacturers.

**EXHIBIT 5. PROJECTION FACTORS (REDACTED)**

**EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)**



**EXHIBIT 7. CREDIBILITY OF EXPERIENCE (REDACTED)**

## EXHIBIT 8. PAID TO ALLOWED RATIO

The following table provides support for the average paid to allowed ratio shown in Worksheet 1, Section III. The table also demonstrates that the ratio is consistent with membership projections by plan included in Worksheet 2.

This paid to allowed ratio represents the weighted average projected actuarial value/cost sharing, using anticipated membership projections by plan as weights. No adverse selection or member health status is included in the determination of any actuarial value/cost sharing by plan. The paid-to-allowed ratio for the Catastrophic Plan includes an adjustment to reflect the morbidity impact of the Catastrophic Plan specific eligibility requirements. With some exceptions, only those age 30 or under may enroll in this plan, which reduces its paid-to-allowed ratio relative to metallic plans in which enrollees of any age may enroll.

Table 8.1 below shows the actuarial value/cost sharing and anticipated membership distribution by plan that was used in developing the overall paid to allowed ratio for Worksheet 1, Section III of the URRT. Please note the average paid to allowed ratio in the below table is slightly different than the paid to allowed ratio in the URRT, as the URRT does not include EHB's and table 8.1 does.

| <b>Table 8.1</b><br><b>WellCare Health Plans of Kentucky, Inc.</b><br><b>Paid to Allowed Average Factor Support Exhibit</b> |                           |                       |                              |                    |                       |
|---|---------------------------|-----------------------|------------------------------|--------------------|-----------------------|
| <b>Plan</b>   | <b>Carrier Member Mix</b> | <b>Allowed Claims</b> | <b>Paid to Allowed Ratio</b> | <b>Paid Claims</b> | <b>AV Metal Level</b> |
| WellCare Catastrophic (72001KY0010001)  | 1.7%                      | \$242.49              | 0.600                        | \$145.61           | 0.612                 |
| WellCare Bronze (72001KY0010004)  | 17.1%                     | \$422.99              | 0.650                        | \$274.74           | 0.618                 |
| WellCare Silver (72001KY0010005)  | 58.2%                     | \$424.86              | 0.702                        | \$298.43           | 0.718                 |
| WellCare Gold (72001KY0010006)  | 23.1%                     | \$439.29              | 0.801                        | \$351.94           | 0.814                 |
| Metallic Plans  | 98.3%                     | \$427.92              | 0.717                        | \$306.88           | 0.723                 |
| Catastrophic Plans  | 1.7%                      | \$242.49              | 0.600                        | \$145.61           | 0.612                 |
| <b>All Plans</b>  | <b>100.0%</b>             | <b>\$424.86</b>       | <b>0.716</b>                 | <b>\$304.22</b>    | <b>0.721</b>          |

The average Worksheet 1 factor shown above was developed based on the projection of the average mix of plans sold. The Worksheet 2 factor shown above was measured using the projected Allowed PMPMs by plan from Worksheet 2 and the Actuarial Value calculated using the Federal AV Calculator model. Because Catastrophic plans by definition do not have an AV Calculator value, the paid to allowed ratio is used in the Worksheet 2 calculation for these plans.

**EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE (REDACTED)**

**EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK (REDACTED)**

## EXHIBIT 11. PROJECTED LOSS RATIO

The projected raw loss ratio is 80.0%. This loss ratio is calculated consistently with the MLR methodology according to the National Association of Insurance Commissioners as prescribed by 211 CMR 147.00. The following table demonstrates WellCare's premium development and MLR calculation using rounded values.

| <b>Table 11.1</b><br><b>WellCare Health Plans of Kentucky, Inc.</b><br><b>Projected Federal Medical Loss Ratio Exhibit</b> |                 |
|--|-----------------|
| Member Months  | <b>59,104</b>   |
| Claims   | \$304.22        |
| Claim-Related Retention (QI/Health IT)   | \$0.00          |
| Prior Rebate   | \$0.00          |
| Change in Reserve  | \$0.00          |
| Transitional Recoveries (Received)   | -\$15.86        |
| Risk Adjustment Paid (Received)  | -\$1.72         |
| Risk Corridors Paid (Received)   | \$0.00          |
| <b>MLR Numerator</b>   | <b>\$286.64</b> |
| Premium  | \$388.26        |
| Premium-Related Admin Expenses (Federal)   | \$14.23         |
| Income Tax   | \$15.73         |
| <b>MLR Denominator</b>   | <b>\$358.30</b> |
| Other Expenses (Federal)   | \$87.39         |
| <b>Loss Ratio</b>  | <b>80.0%</b>    |

## EXHIBIT 12. SINGLE RISK POOL

WellCare rates are developed using a single risk pool, established according to the requirements in 45 CFR section 156.80(d) and reflects all covered lives for every non-grandfathered product/plan combination, in the Commonwealth of Kentucky individual health insurance market.

## EXHIBIT 13. INDEX RATE

The index rate for the projection period is a measurement of the average allowed claims PMPM for EHB benefits. As WellCare did not have any 2014 experience in this market, the is no experience period index rate.

Because this is a manual rate development, the Milliman HCGs were utilized to determine the projection period index rate. Utilization and charge data from the HCGs were trended from the midpoint of 2013 to the midpoint of 2016. Because claims data specific to WellCare do not yet exist to facilitate a WellCare-specific trend study, claims and utilization were trended using Milliman's HCG trend estimates. These estimates are the result of Milliman's extensive health costs research.

The index rate for the projection period is a measurement of the average allowed claims PMPM for EHB benefits. The projected index rate reflects the projected 2016 mixtures of smoker/non-smoker population, area factors, catastrophic/non-catastrophic enrollment, actuarial value/cost-sharing impacts, and the projected mixture of demographics and risk morbidity that WellCare expects to receive in the Single Risk Pool. The index rate also accounts for projected discount rates and WellCare's anticipated degree of healthcare management based on current and anticipated practices.

The projected 2016 index rate for WellCare's individual market in Kentucky is \$424.10. Note that there are additional benefits being offered beyond the EHB benefits. The projected index rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Exchange user fees. Table 13.1 below illustrates the development of the Index Rate from the manual allowed claims PMPM.

The projected Index Rate is equal to the projected total allowed claims PMPM minus the total non-EHB allowed claims PMPM.

- The following newly mandated benefits required under state law, were removed to calculate the index rate:
  1. SB61: \$0.68 PMPM.
  2. SB 75: \$0.08 PMPM.
  3. HB465: No dollars were removed to calculate the index rate, as the state has estimated the impact of this mandate to be \$0 PMPM.

The following table summarizes the factors applied to the Manual Index Rate to determine the Projected Index Rate.

| <b>Table 13.1</b><br><b>WellCare Health Plans of Kentucky, Inc.</b><br><b>Projected Index Rate Development (\$PMPM)</b> |                 |
|---|-----------------|
| <b>Projected 2016 Allowed Charges</b>   | <b>\$424.86</b> |
| <b><u>Benefits in Addition to EHBs</u></b>  |                 |
| <b>Non-EHB State Mandates</b>   | <b>\$0.76</b>   |
| <b>Other</b>  | <b>\$0.00</b>   |
| <b>Projection Period Index Rate</b>   | <b>\$424.10</b> |

## EXHIBIT 14. MARKET ADJUSTED INDEX RATES

The following table summarizes the factors applied to the Index Rate in the projection period to determine the Market Adjusted Index Rate.

| Table 14.1<br>WellCare Health Plans of Kentucky, Inc.<br>Marked Adjusted Index Rate Development |                  |
|---|------------------|
| Index Rate  | \$ 424.10        |
| Net Risk Adjustment   | \$ (1.57)        |
| Net Transitional Reinsurance  | \$ (13.61)       |
| Exchange Fee  | \$ -             |
| Paid to Allowed Average Factor  | 0.716            |
| Market Adjustments (Allowed Basis)  | \$ (21.20)       |
| Quarterly Trend   | 1.000            |
| <b>Market Adjusted Index Rate</b>   | <b>\$ 402.90</b> |

The Market Adjusted Index Rate is not calibrated. This means that this rate reflects the average demographic characteristics of the single risk pool.

Each of the above modifiers were developed as follows:

- **Net Risk Adjustment**  
This factor includes the impact of the estimated risk adjustment transfer payment as addressed in Exhibit 9 plus the Risk Adjustment User Fee of \$0.15.
- **Net Transitional Reinsurance**  
This factor includes the impact of the estimated Transitional Reinsurance \$15.86 PMPM recovery as addressed in Exhibit 9 plus the Transitional Reinsurance Contribution of \$2.25 PMPM.
- **Marketplace Exchange Fee**  
No exchange fees are reflected in the rates as the Kentucky Exchange (kynect) does not charge any exchange fees.



**EXHIBIT 15. PLAN ADJUSTED INDEX RATES (REDACTED)**

**EXHIBIT 16. CALIBRATION (REDACTED)**

**EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)**

## EXHIBIT 18. AV METAL VALUES

The AV metal values included in Worksheet 2 are entirely based on the AV Calculator. Table 18.1 below summarizes these values for each product.

| <b>Table 18.1</b><br><b>WellCare Health Plans of Kentucky, Inc.</b><br><b>Actuarial Values</b> |                        |                               |
|--|------------------------|-------------------------------|
| <b>Plan</b>  | <b>Actuarial Value</b> | <b>Actuarial Value Source</b> |
| WellCare Catastrophic (72001KY0010001)   | 0.612                  | Federal AV Calculator         |
| WellCare Bronze (72001KY0010004)   | 0.618                  | Federal AV Calculator         |
| WellCare Silver (72001KY0010005)   | 0.718                  | Federal AV Calculator         |
| WellCare Gold (72001KY0010006)   | 0.814                  | Federal AV Calculator         |

EXHIBIT 19. AV PRICING VALUES (REDACTED)

**EXHIBIT 20. MEMBERSHIP PROJECTIONS (REDACTED)**

## EXHIBIT 21. TERMINATED PRODUCTS

WellCare is terminating its 2015 Silver and Gold offerings effective 1/1/16. In their place, WellCare will be introducing new Silver (72001KY0010005) and Gold Plans (72001KY0010006). Members in the terminated plans will be auto-enrolled into the new plans in 2016. The following list summarizes terminated products and applicable plan mapping.

| <b>Table 21.1</b><br><b>WellCare Health Plans of Kentucky, Inc.</b><br><b>Terminated Products</b> |                |                     |                               |                         |
|---|----------------|---------------------|-------------------------------|-------------------------|
| <b>Product Name</b>   | <b>Plan ID</b> | <b>Product Type</b> | <b>Present in Experience?</b> | <b>New Plan Mapping</b> |
| WellCare Silver   | 72001KY0010002 | HMO                 | No                            | 72001KY0010005          |
| WellCare Gold   | 72001KY0010003 | HMO                 | No                            | 72001KY0010006          |

## EXHIBIT 22. PLAN TYPE

There are no differences between the plans of WellCare and the plan type selected in the drop-down box in Worksheet 2, Section I of the Part I Unified Rate Review Template.



## EXHIBIT 23. WARNING ALERTS

There is a warning on the Plan Adjusted Index rate and Total Premium lines of Worksheet 2, Section IV. Since a large portion of WellCare's silver membership is in cost sharing reduction plans the difference between the index rate and the plan adjusted index rate is greater than the 2% threshold. Additionally, Section III is not applicable to WellCare as WellCare has no experience in this market.

## EXHIBIT 24. EFFECTIVE RATE REVIEW INFORMATION (OPTIONAL)

This section is not applicable to the federal actuarial memorandum.

## EXHIBIT 25. RELIANCE

In performing this analysis, I relied on data and other information provided by WellCare Health Plans of Kentucky, Inc. I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

## EXHIBIT 26. ACTUARIAL CERTIFICATION

I am a Consulting Actuary with the firm of Milliman, Inc. WellCare Health Plans of Kentucky, Inc. engaged me to provide the opinion herein.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet its qualification standards to perform the analysis and render the actuarial opinion contained herein.

I certify to the best of my knowledge and judgment:

1. The projected index rate is
  - In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1)) ☐
  - Developed in compliance with the applicable Actuarial Standards of Practice
  - Reasonable in relation to the benefits provided and the population anticipated to be covered ☐
  - Neither excessive nor deficient based on my best estimates of the 2016 Individual market.
2. The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. The geographic rating factors used reflect only differences in the cost of delivery, and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans.

The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by Federal regulation to be provided in support of the review of rate increases, for certification of qualified health plans for federally facilitated marketplaces and for certification that the index rate is developed in accordance with Federal regulation and used consistently and only adjusted by the allowable modifiers.

The information provided in this actuarial memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

Differences between the projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

Milliman is not a law firm. Nothing in this correspondence should be construed as legal advice. In the event a legal interpretation is required, we recommend review by your legal counsel.

Signed:



Name: Pedro Alcocer, FSA, MAAA

Title: Consulting Actuary

Date: April 29, 2015